

Message Text

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ORIGIN EB-03

INFO OCT-01 ISO-00 /004 R

DRAFTED BY EB/OT/STA:JPCRAWFORD:DI

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R 160033Z NOV 74

FM SECSTATE WASHDC

TO AMEMBASSY OTTAWA

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FOLLOWING SENT ACTION SECSTATE INFO ALL EC CAPITALS
FROM EC BRUSSELS NOV 13

QUOTE LIMITED OFFICIAL USE EC BRUSSELS 8843

PASS STR, TREASURY AND AGRICULTURE

E.O. 11652: NA

TAGS: ETRD, US, EEC, CAN, EAGR

SUBJECT: TRANSIT SHIPMENT OF EC CHEESES THROUGH CANADA

REF: A) STATE 249282 B) EC BRUSSELS 8779

1. BEGIN SUMMARY: WE HAVE TALKED WITH HIJZEN AND, SEPARATELY WITH HANNAY, ABOUT THE CHEESE TRANSHIPMENT PROBLEM. WE EMPHASIZED THE URGENCY AND SERIOUSNESS OF THE SITUATION. THEY DOUBT THAT THE COMMISSION HAS LEEWAY TO REDUCE EC SUBSIDIES APPLICABLE TO CHEESE EXPORTED TO CANADA BUT THOUGH THERE MIGHT POSSIBLY BE A QUESTION OF FRAUD. HIJZEN PROMISED TO GIVE US FURTHER WORD THURSDAY OR FRIDAY. END SUMMARY.

2. WE CONVEYED TO HIJZEN ON NOVEMBER 13 THE CONTENTS OF REFTEL A. WE STRESSED THAT (A) THE VOLUME OF TRADE IS ALREADY HIGH, (B) IT PROMISES TO INCREASE, (C) UNLESS THE COMMISSION CAN TAKE RAPID AND EFFECTIVE ACTION AGAINST THIS TRADE, WE WILL NOT BE ABLE TO AVOID COUNTERVAILING AGAINST EC ORIGIN CHEESES ENTERING THE US FROM
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NON-EC COUNTRIES.

3. HIJZEN APPEARED TO BE TAKEN ABACK BY OUR FIGURES ON THE VOLUME OF TRADE. HE SAID THAT HE DOES NOT HAVE AN IMMEDIATE EXPLANATION OR REMEDY BUT WOULD GET BUSY AT ONCE. HIS HYPOTHESIS WAS THAT SUCH A VOLUME OF TRADE SUGGESTS FRAUD. THE COMMISSION DOES NOT THINK THAT THE EC SUBSIDY IS EXCESSIVE IN TERMS OF THE DOMESTIC CANADIAN MARKET FOR CHEESE.

4. THEY CLAIMED THAT ACCORDING TO THE COMMISSION CALCULATIONS THE SUBSIDY SHOULD NOT BE ENOUGH TO ALLOW THE LANDING OF GOODS IN CANADA, RE-LOADING AND THEN SUBSEQUENT PAYMENT OF THE AMERICAN DUTY-- PARTICULARLY IF THE CHEESE IS BEING RE-LOADED ABOARD SHIPS FOR THE PORT OF NEW YORK. THEY MAINTAIN THAT EC CHEESE SHIPMENTS TO CANADA HAVE NOT INCREASED RECENTLY BUT GAVE NO FIGURES.

5. ACCORDING TO HIJZEN, FRAUD WOULD HAVE BEEN POSSIBLE IN AUGUST AND SEPTEMBER WHEN THE ONLY PROOF REQUIRED FOR GIVING THE EC SUBSIDY WAS THAT THE SHIP CARRYING THE CHEESE DOCK IN CANADA. AS OF THE FIRST OF OCTOBER, HOWEVER, THE REGULATION BEGAN TO REQUIRE CUSTOMS DOCUMENTATION FOR PROOF OF ENTRY AND PAYMENT OF DUTY PRIOR TO PAYMENT OF THE RESTITUTION.

6. HIJZEN WAS PESSIMISTIC ABOUT THE COMMISSION'S BEING ABLE TO LOWER OR ELIMINATE THE SUBSIDY ON CHEESE EXPORTS TO CANADA IN VIEW OF THE STRONG POSITION RECENTLY TAKEN BY THE ITALIANS. HE SAID, HOWEVER, THAT HE WOULD BE IN TOUCH WITH US ON THURSDAY OR FRIDAY, AFTER HE HAS HAD A CHANCE TO CONTACT THE ITALIAN EXPORTERS AND ASSESS ALTERNATIVES.

7. HE SAID THAT THE COMMISSION IS UNDER SEVERE PRESSURE TO RESUME EXPORT SUBSIDIES TO THE UNITED STATES BUT IT HAS MANAGED TO WARD OFF THOSE PRESSURES SO FAR. HE HOPED THAT WASHINGTON WOULD NOT TAKE ANY PRECIPITATE STEPS. WE REITERATED TO HIM THE PROBLEM CAUSED BY THE EXISTING VOLUME OF TRAFFIC AND THE OBVIOUS INTEREST BEING SHOWN BY OTHER MERCHANTS IN EXPANDING IT. WE REPEATED THAT THE US WOULD TRY TO HOLD OFF UNTIL THE END OF THE WEEK IN THE HOPE OF A LIMITED OFFICIAL USE

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COMMISSION PROPOSAL FOR EXPEDITIOUS SETTLEMENT BUT LEFT HIM IN NO DOUBT THAT AT THE US AUTHORITIES WOULD HAVE TO MOVE IF THE COMMISSION CANNOT COME UP WITH AN ACCEPTABLE SOLUTION.

8. WE TALKED SEPARATELY WITH HANNAY TO BE SURE THAT SOAMES' OFFICE IS ALERTED TO THE SERIOUSNESS OF LATEST DEVELOPMENTS. HANNAY SAID THAT SOAMES IS AWARE OF THE PROBLEM. HE STRONGLY DOUBTED THAT THE COMMISSION WOULD BE ABLE TO ALTER THE

SUBSIDY ON CHEESE DESTINED FOR CANADA BECAUSE OF POLITICAL
PRESSURES FROM VARIOUS MEMBER STATES, NOT JUST ITALY. LIKE
HIJZEN, HE PERSONALLY THOUGHT IT BEST TO CONCENTRATE ON THE
FRAUD ANGLE BUT OF COURSE COULD MAKE NO COMMITMENT.
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